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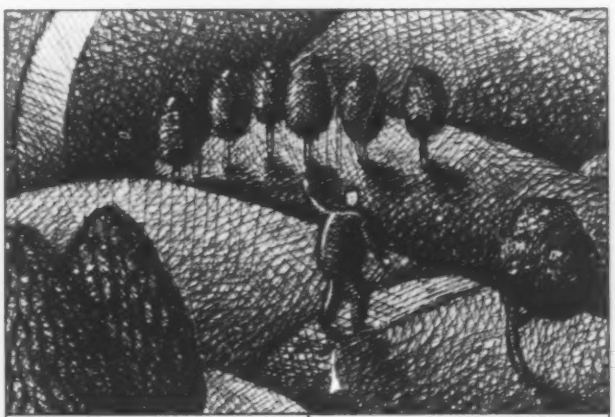

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According to this article, housing costs are rising faster than income for an expanding segment of our society. Affordability, a problem largely concentrated among lower-income households, is increasingly becoming a problem for middle-income families as well.

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MAXIMIZING YOUR SERVICING PORTFOLIO: HANDLING THE GYRATING MARKET
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Servicing has usually been thought of as the "riskless" component of mortgage banking. Changes in the financial markets, however, have altered this perception. Managing a servicing portfolio now requires the highest level of skill.

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THE ASSET MOVERS

Roslyn B. Payne

When the Federal Home Loan Bank Board created the Federal Asset Disposition Association (FADA) on November 5, 1985, the Federal Savings and Loan Insurance Corporation (FSLIC) held more than $2.5 billion in book value of assets in 26 defunct savings institutions or receiverships. Now 18 months later, the book value of total assets held has grown 200 percent or to approximately $7.4 billion in 61 receiverships as of June 30, 1987.

A year ago there were four criteria for FADA to be judged against with respect to performance:

- FADA's ability to handle large volumes of these difficult assets;
- The variety of problems that will need to be resolved;
- The way FADA will go about solving problems; and
- Asset recoveries and reserve recaptures.

How has FADA done so far?

Volume and variety

On July 18, 1986, FADA received its first asset management assignment from FSLIC. FADA was assigned 64 assets with a book value of $131 million from Sun Savings and Loan, a failed savings institution in San Diego, California.

Almost a year later, FADA is managing approximately 2,500 assets for 31 troubled S&Ls valued at approximately $5.2 billion,[1] as of May 31, 1987. In addition, FADA is performing asset advisory work for 12 financially troubled institutions with approximately 500 assets under contract to FSLIC and advising FSLIC on nine assignments ranging from nationwide participation loan problems to portfolio analysis involving a real estate syndication subsidiary of a saving institution.

In the area of volume, FADA has been able to work successfully on large numbers of assets even during a start-up year.

The breadth of the problems that troubled institutions are involved in—and that FADA has been called upon to resolve—is truly staggering. How is FADA dealing with this variety of problems?

FADA acts as an agent and never takes title to assets. FADA has continued to act in three capacities:

- Asset management and disposition
- Asset advisory
- Advise FSLIC on a multitude of issues.

During this year FADA has had a few key observations for the portfolios it has been involved with:

- Generally three-quarters of the assets are *loans* not real estate owned (REO). Of the loan category, land loans and construction loans dominate the landscape.
- With respect to property types, land and condominium assets are significant. Retail, office and mixed use range between 10-15 percent each. A far cry indeed from the traditional lines of business for a savings and loan.
- Geography—assets in three states repeatedly occur: Texas, Florida and California. Nearly three-quarters of the value of assets under FADA management are located in the sun and oil belts across America. During the next few years these percentages will change, but FADA anticipates that the states of California, Texas and Florida will continue to dominate the picture.

All of the cases we have seen to date are basically cases of mismanagement and fraud.

Creating FADA's infrastructure

FADA's beginning was evidenced by the funding of $25 million in capitalization from its parent and sole shareholder, FSLIC, on March 14, 1986. The association has grown during the period of one year to be a company that, as of May 31, 1987, operates in six cities across the country with a staff of approximately 248. A real estate operations infrastructure has been built that has three strong elements:

- A regional delivery system in five major cities—Denver, Los Angeles, San Francisco, Dallas and Atlanta—that offers FSLIC and the 12 Federal Home Loan Banks a full range of asset management and disposition services nationwide including professional services focusing expertise in the areas of asset analysis, asset strategy development and asset marketing. FADA's regional apparatus is structured to provide services in a comprehensive manner from assignment to ultimate disposition or provide assistance in an advisory capacity focused on a particular fact of a troubled asset.
- An umbrella approach to managing assets that provides value added to FSLIC in major ways that significantly reduce costs and addresses major asset quality problems. FADA's regional system is supported by six functional areas of expertise based in the San Francisco administrative offices. These areas are: appraisal and valuation services, contractor administration, participations, national marketing, property insurance and risk management and institutional evaluations and advisory services. These

ILLUSTRATION BY TODD TREADWAY

units support the regional network through the development of uniform policies and procedures and implementation methodology that capitalizes on economies of scale and minimizes duplication.

- Asset reporting, systems and controls that enhance the asset management process and preserve the integrity of the policies and procedures built. FADA is linked nationally by a local area network computer system that enables FADA to report and control the assets assigned from FSLIC in a timely and accurate environment. This allows FADA to position itself to act rather than react to changed circumstances or environment.

Capital recovery

Sale and loan workout accomplishments—Since its inception until May 31, 1987, for failed thrift assignments, FADA has closed sales and completed payoffs on 28 assets at a net takeover value of $36 million, and has 46 sales and loan payoffs under contract totalling $62 million. FADA has 79 additional sales and loan payoffs under negotiation representing $220 million in net takeover value. Loans restructured for failed thrifts to date equal $29 million in net takeover value, while loan restructures under negotiations amount to $591 million.

With respect to asset advisory engagements, FADA has restructured 21 loans valued at $243 million, completed or has under negotiation 11 sales, loan payoffs or deeds in lieu of foreclosure with a value of $59 million. This excludes several companies that FADA is managing and will eventually market.

Sales and loan payoffs or loan restructures under contract or negotiation for asset management services for supervised associations total 60 with a value of $220 million.

FADA has or is restructuring and selling in excess of 400 assets valued at nearly $1.5 billion as of May 31, 1987.

continued

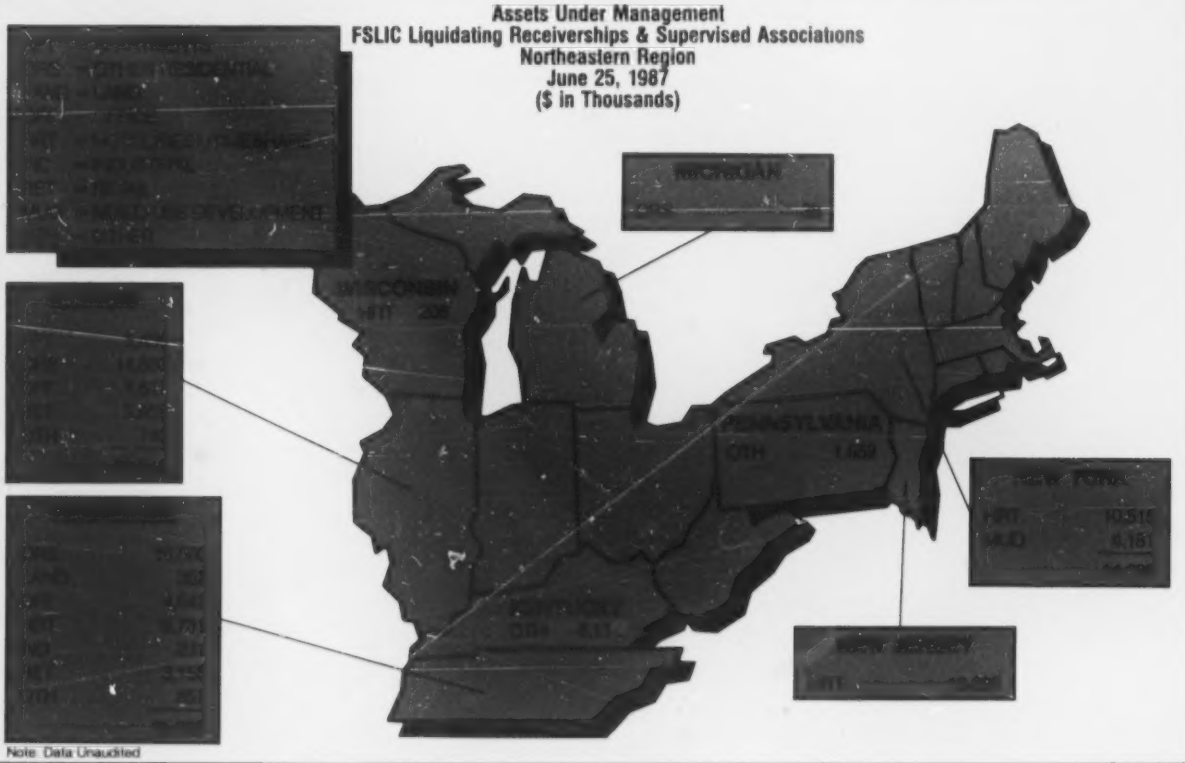
Almost a year later, FADA is managing approximately 2,500 assets for 31 troubled S&Ls valued at approximately $5.2 billion.

Roslyn B. Payne is president and chief executive officer of the Federal Asset Disposition Association in San Francisco, California. FADA is owned by the Federal Savings and Loan Insurance Corporation. The association was created in late 1985 to handle the management, workout and liquidation of the significant number of difficult assets encountered by FSLIC through the failure of savings institutions. FADA acts as an agent for FSLIC.

EXHIBIT 1

Federal Asset Disposition Association

Assets Under Management
FSLIC Liquidating Receiverships & Supervised Associations
Northeastern Region
June 25, 1987
($ in Thousands)



Note: Data Unaudited

FADA continues to focus on the bottom line: capital recovery. The reason for FADA's existence is to achieve maximum dollar for FSLIC.

Capital recovery estimates

The area where the FADA can be of the most "added value" to the system is in the area of "capital recovery" relative to the disposition of assets for FSLIC. Capital recovery is and will continue to be one of the key areas of FADA's focus. For illustrative purposes, for each 10 percent improvement on $100 million of FADA managed assets, a $10 million benefit would be realized for FSLIC.

As an example, during the third quarter of 1986, FSLIC asked FADA to manage three major portfolios. These portfolios emanated from the Sun, Presidio and Sunrise receiverships. To date, progress on these portfolios has been encouraging.

Based on the most recent FADA analysis of the [illegible] portfolios, a 90 percent plus or minus recovery rate is anticipated. However, when the combined portfolios are examined, it must be recognized that many of the markets in which these assets are located are extremely volatile and that future economic changes could cause significant fluctuations in asset values, which in turn would influence recovery.

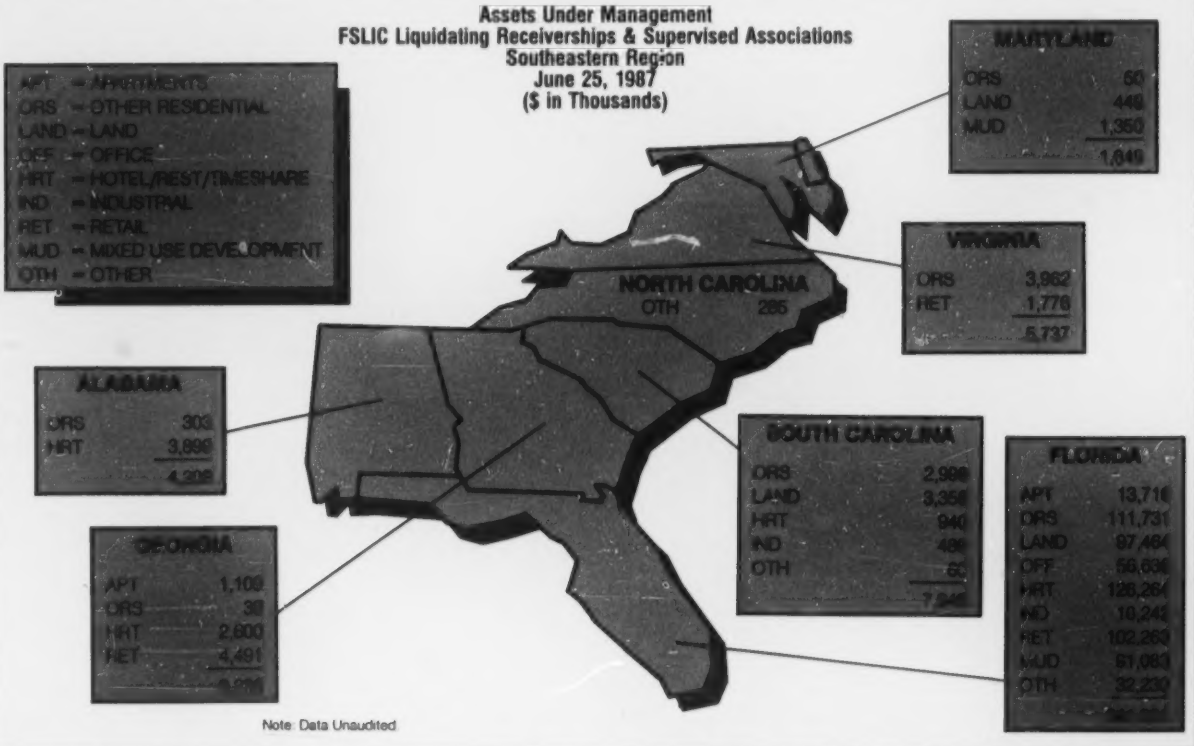
An example of a successful major loan workout is the recent global swap negotiated by FADA between two California savings and loans (Thrift A and Thrift B). FADA, in connection with its management of Thrift A's asset portfolio, recently completed a global workout of 23 participation assets with an original book value of $27 million between Thrifts A and B. The swap will take the second thrift out of the lead management position of these assets, allowing significantly greater ease in the management and liquidation of them. The two S&Ls' shares in each of the assets were equated and partial shares were "swapped" for whole assets. The high costs involved in managing a participation loan are alleviated for both parties. Substantial fees related to legal and management services have been eliminated.

A second example of a successful loan workout and sale involved a large land corporation in Florida. A $26 million loan was made by the institution to the land corporation for the development of 860 acres in North Tampa, Florida, as a planned unit development

continued

EXHIBIT 2

Federal Asset Disposition Association



Note: Data Unaudited

EXHIBIT 3

Federal Asset Disposition Association

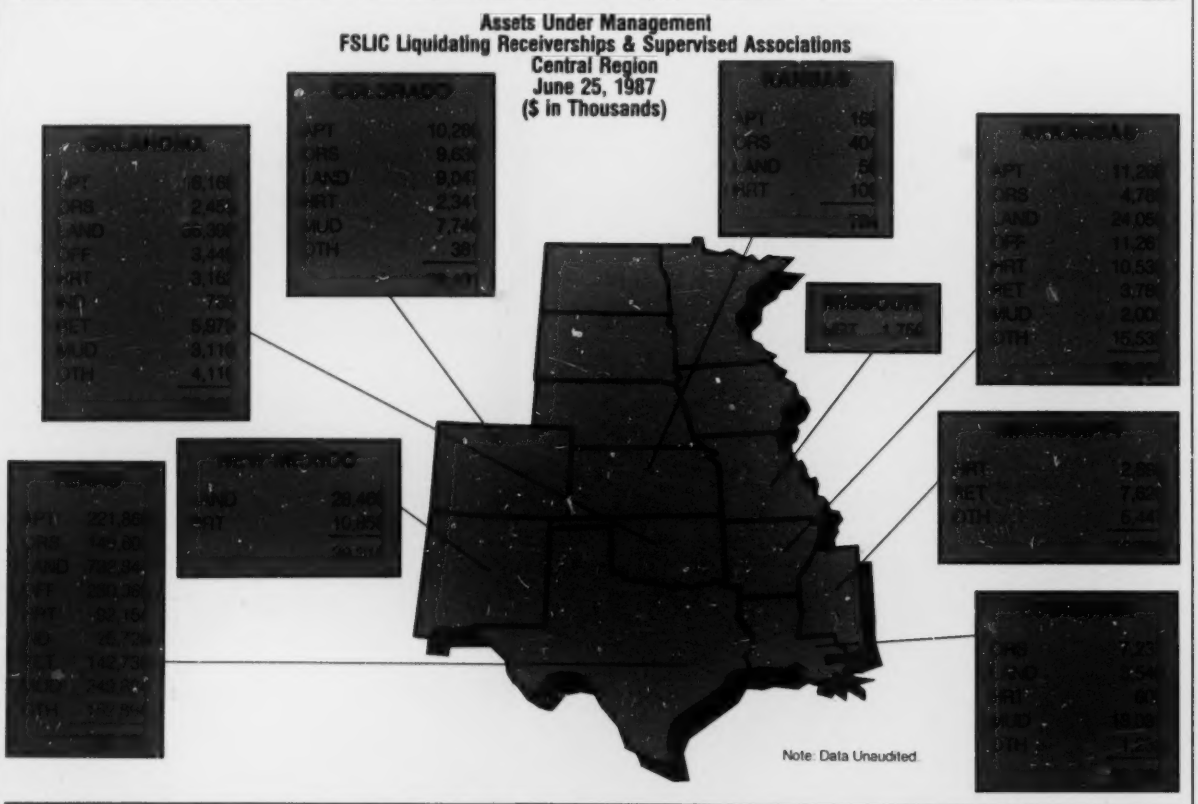


EXHIBIT 4

Federal Asset Disposition Association

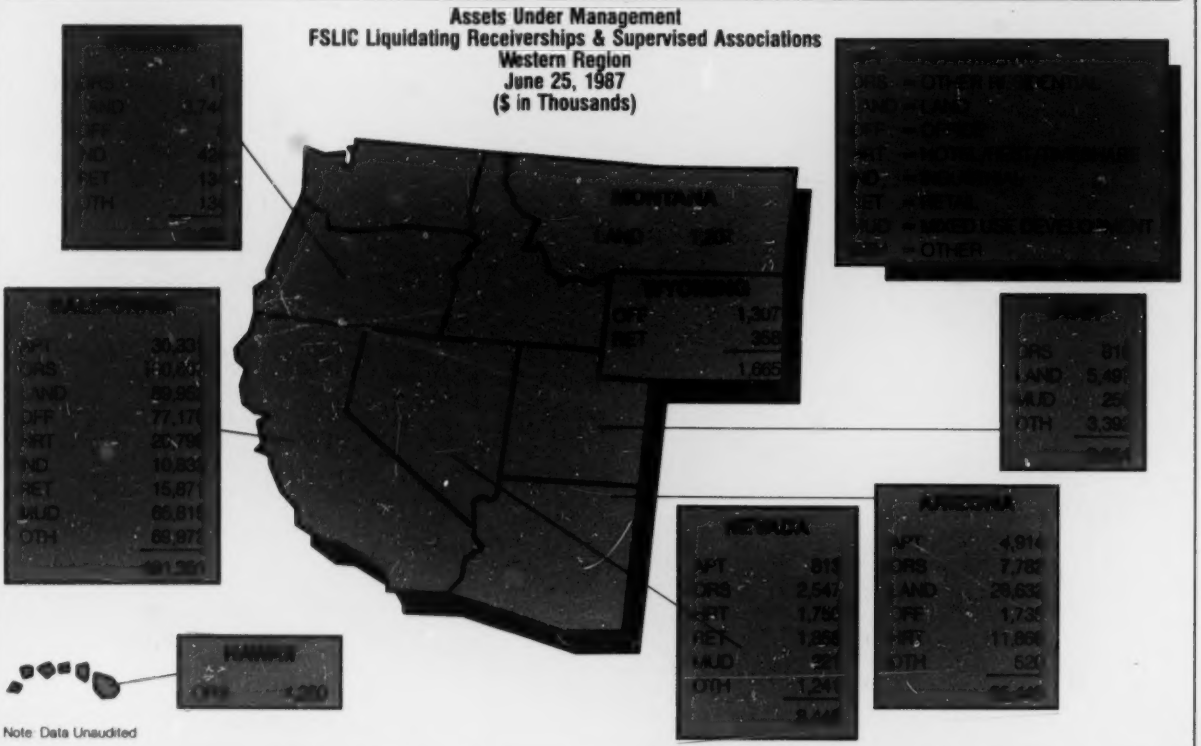


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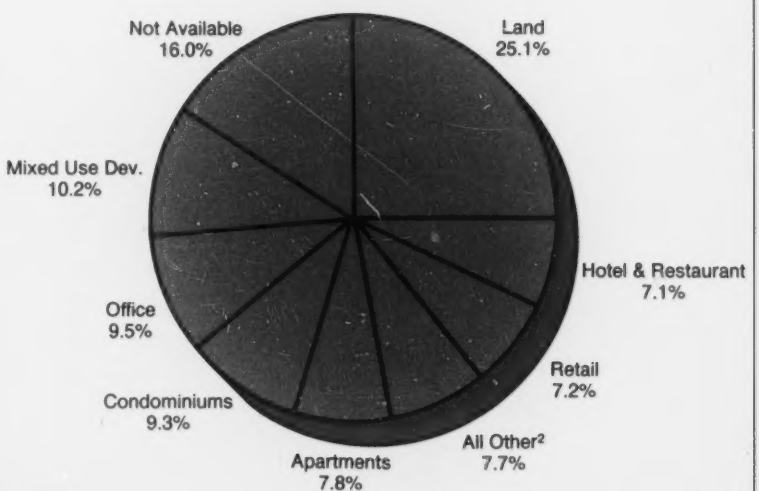
EXHIBIT 5

Federal Asset Disposition Association

Assets Under Management (FSLIC Liquidating Receiverships & Supervised Associations) Value of Assets by Property Type[1] As of June 25, 1987

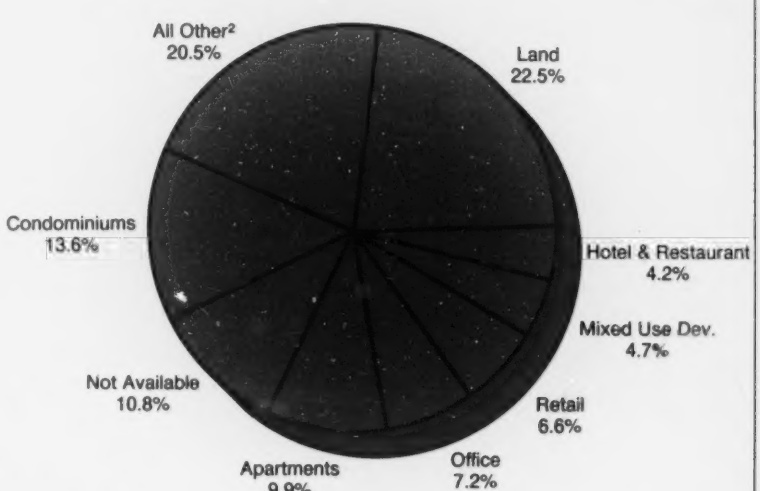


[1] Data Unaudited.
[2] Includes Single-Family, Planned Unit Dev., Timeshare, Industrial, Research & Dev., Special Purpose, Other Real Property and Other Non-Real Property.

EXHIBIT 6

Federal Asset Disposition Association

Assets Under Management (FSLIC Liquidating Receiverships & Supervised Associations) Value of Assets by Property Type[1] As of June 25, 1987

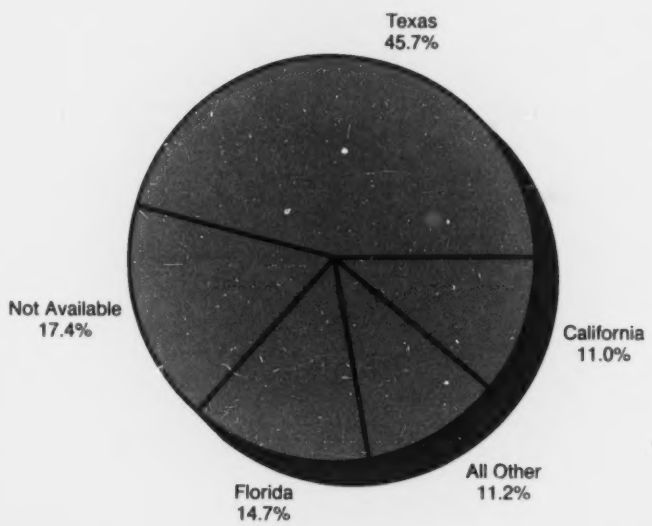


[1] Data Unaudited.
[2] Includes Single-Family, Planned Unit Dev., Timeshare, Industrial, Research & Dev., Special Purpose, Other Real Property and Other Non-Real Property.

EXHIBIT 7

Federal Asset Disposition Association

Assets Under Management
(FSLIC Liquidating Receiverships
& Supervised Associations)
Value of Assets by State[1]
As of June 25, 1987

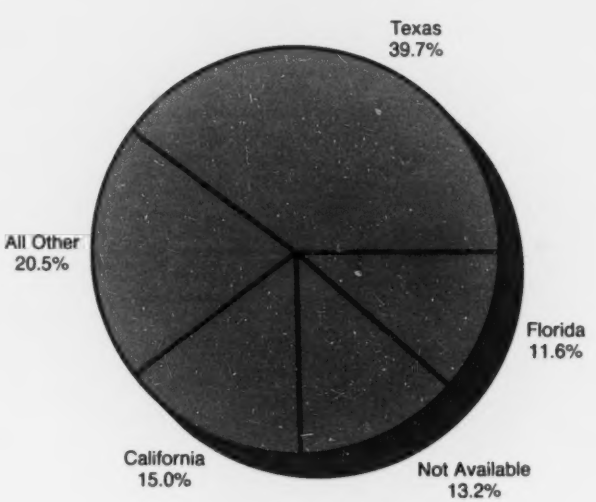


[1] Data Unaudited.

EXHIBIT 8

Federal Asset Disposition Association

Assets Under Management
(FSLIC Liquidating Receiverships
& Supervised Associations)
Value of Assets by State[1]
As of June 25, 1987



[1] Data Unaudited.

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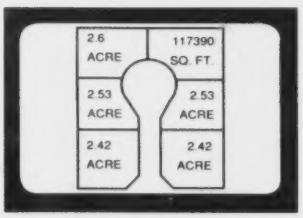

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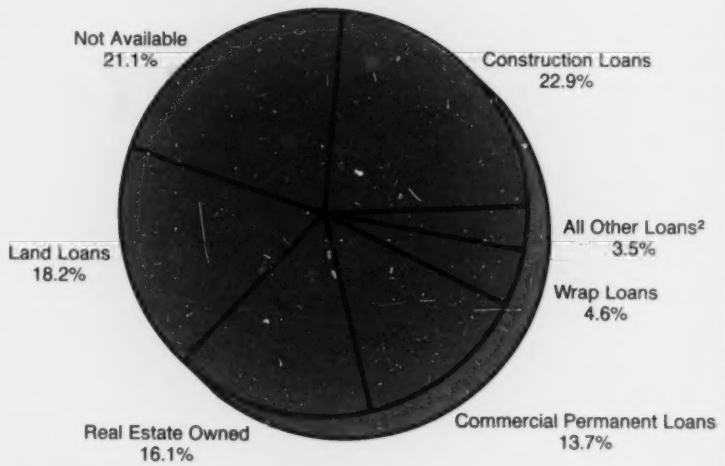
EXHIBIT 9

Federal Asset Disposition Association

Assets Under Management
(FSLIC Liquidating Receiverships
& Supervised Associations)
Value of Assets by Asset Classification[1]
As of June 25, 1987



[1] Data Unaudited.
[2] Includes Consumer, Residential Permanent, Acquisition/Development, Unsecured, Acquisition/Development/Construction and Direct Investments.

EXHIBIT 10

Federal Asset Disposition Association

Assets Under Management
(FSLIC Liquidating Receiverships
& Supervised Associations)
Number of Assets by Asset Classification[1]
As of June 25, 1987

[1] Data Unaudited.
[2] Includes Consumer, Residential Permanent, Acquisition/Development, Unsecured, Acquisition/Development/Construction and Direct Investments.

of high quality single-family homes along with tennis, golf and polo facilities. To date, only the golf course has been completed.

At the time of FADA's involvement a proposal for the sale of the property securing this $26 million loan was proposed on a basis that would have involved the payment of $18 million in case and an $8 million principal loss, in addition to the loss of previously accrued but unpaid interest.

Through FADA's efforts, that sale proposal has been restructured to include the taking of an $8 million second mortgage and additional collateral that will add to the recovery as certain sales levels are attained. A mechanism was also put in place that will assure FADA's ability to get control of the asset on a direct and timely basis, thus short-cutting the lengthy Florida foreclosure process in the event that the purchaser is unable to close as agreed. In addition, the new purchaser will pay the costs incurred by FADA and the receiver in conjunction with documenting and closing this transaction.

This settlement is particularly significant because it enables FSLIC to share in the "upside" of the development, if a value greater than $18 million can be obtained for the property. *FADA's negotiations "added value," in this case, of potentially $8 million.*

Creative marketing

FADA now has enough experience to know where and what type of property it can package and market aggressively. FADA has worked through numerous global settlements with large borrowers and dealt with the litigation roadblocks on other large deals. Additionally, FADA is exploring in a concrete fashion, ways to finance deals using the secondary mortgage market as a vehicle. To do this, FADA is standardizing documents for commercial deals in much the same way Ginnie Mae paved the way for residential mortgage securitization in the early 1970s.

FADA continues to focus on the bottom line: capital recovery. The reason for FADA's existence is to achieve maximum dollar for FSLIC. And, thus far, FADA has achieved that. □

[1] This reflects 100 percent of value of loans where FADA is managing a lead lender position on participation loans. If 100 percent of the book value of all participation loans is included, the value of assets under FADA management is nearly $6 billion.

HOUSING

OF THE 1980s

Unavailable, Unaffordable and Indecent

Dr. Richard W. Peach

At the end of World War II the housing situation in this country was clearly in need of improvement. Fewer than half of all households owned the homes they lived in. "Some 40 percent of the nation's homes . . . were dilapidated or lacked indoor plumbing, and 10 percent of the nation's households lived in overcrowded accomodations."[1]

The passage of the Housing Act of 1949 established as a national goal a general upgrading of the nation's housing stock to culminate in "a decent home and suitable living environment for every American family." The following 30 years witnessed massive investment in housing and supporting infrastructure, fueled by rapid economic growth, relatively stable financial conditions, advances in both housing construction and finance, and government policy that clearly encouraged this investment. The results have been truly dramatic. Roughly 60 percent of all year-round housing units in existence today have been built since 1950.[2] The quality of the housing stock, in terms of its physical condition, amenities and spaciousness, has vastly improved. The rate of homeownership also increased to the point where roughly two of every three households owned the home they lived in. The result has been that "Americans today are the best-housed people in history."[3]

This impressive achievement does not mean, however, that the housing situation is

PHOTOGRAPH: THE BETTMAN ARCHIVE

without problems and that the goal set forth in the Housing Act of 1949 has been achieved. Millions of households continue to live in housing regarded as physically inadequate or overcrowded. Moreover, for an even larger and growing number of households, acquiring physically adequate and uncrowded shelter represents a financial burden.

The measurement of housing problems

A recent study by the Department of Housing and Urban Development (HUD) takes a very close look at the current housing situation based on data from the Annual Housing Surveys (AHS) of 1975, 1977, 1981 and 1983.[4] [5] In this study, as has traditionally been the case, housing problems are separated into two categories, quality and affordability. Housing quality is measured by the physical condition of the housing unit and by the number of people who reside in the unit. Affordability is measured by the extent of financial burden that housing costs impose on the household. In this HUD study, quality and affordability are measured by the following three criteria:

- *Physical inadequacy*—a housing unit is judged to be physically inadequate when plumbing, heating, electrical, sewage, maintenance or public hall defects or flaws exist. A housing unit is judged to be severely inadequate when these defects or flaws are determined to be most serious in terms of health, safety and repair cost.[6]
- *Crowding*—a housing unit is defined as crowded when there is more than one person per room.
- *Cost burden*—a renter is considered to be cost burdened when more than 30 percent of gross household income is devoted to housing costs. (A renter's gross housing cost is gross rent, which includes contract rent plus the cost of utilities and fuels paid by the renter.) A homeowner paying on a mortgage on that property is considered cost burdened if more than 40 percent of gross household income is devoted to housing costs. (A homeowner's housing costs include mortgage principal and interest, real estate taxes, property insurance, utilities, fuel and garbage and trash collection. Maintenance costs are not included.)

Richard W. Peach is a senior economist at the Mortgage Bankers Association of America. Prior to joining MBA, he was an economist with the National Association of Realtors (NAR) for 7½ years where he served as staff vice president for forecasting and policy analysis.

Table 1 presents measures of these criteria of housing problems for four years, 1975, 1977, 1981 and 1983. In 1975, 7.7 million or 10.6 percent of the 72.6 million occupied housing units were deemed to be physically inadequate. Of those, 3.1 million or 4.3 percent of the total were severely inadequate. By 1983, physical inadequacy had declined in both absolute terms, down to 7.6 million units, and relative to the total occupied housing stock, down to 8.9 percent. In total, the number of inadequate units declined by 1.8 percent during the eight-year period. The number of units regarded as severely inadequate declined by an even greater percentage, down nearly 8 percent to 2.9 million units or 3.4 percent of the occupied stock.

The homeownership rates for both very low and low-to-moderate income households were lower in 1983 than in 1975 while the homeownership rate for other households, those with middle and upper incomes, was higher.

The incidence of overcrowding declined even more substantially during this period. In 1975, 2.7 million units representing 3.8 percent of the stock met the criterion for overcrowding. By 1983, that number had declined about 19 percent to 2.2 million units or 2.6 percent of the occupied stock.

In contrast, the number of households that were cost burdened rose sharply between 1975 and 1983. In 1975 a total of 8.8 million households were considered to be cost burdened, representing 12.1 percent of all households. By 1983 that number had risen 65 percent to 14.4 million or 17.0 percent of all households.[7] [8]

On balance, the number of households or occupied housing units with a housing problem rose by 26 percent to 24.2 million, more than one-quarter of the total. Declines in physical inadequacy and crowding were more than offset by increases in cost burden. Moreover, by 1983 the number of cost burdened households exceeded the number of physically inadequate and crowded units. Thus, it is clearly the case that affordability has surpassed housing quality as the primary housing problem facing the nation.

Types of physical defects

Data on actual physical defects, presented in Table 2, indicate that the number of housing units lacking basic facilities, such as kitchens, bathrooms and plumbing, has been declining as units lacking such facilities are removed from the housing stock. However, the data also indicate that the incidence of poor maintenance, as evidenced by such defects as plumbing breakdowns, exposed wiring and interior walls, ceilings and floors with cracks and holes, has been increasing.[9] This trend is not inconsistent with the tremendous increase in the incidence of cost burden. For example, homeowners facing affordability problems likely delay or forgo maintenance expenses that they otherwise would incur if their income allowed. Similarly, landlords apparently delay or forgo maintenance expenses that they would be unlikely to recover in higher rents.

The characteristics of households facing housing problems

As shown in Table 3, housing problems are considerably more common among renters than among homeowners. In 1983, 6.2 percent of owner-occupied housing units were physically inadequate compared to 13.8 percent of renter-occupied units. Similarly, 2.2 percent of owner-occupied units were severely physically inadequate while 5.7 percent of renter-occupied units were severely physically inadequate. With regard to crowding, 1.9 percent of owner-occupied units were crowded compared to 4.0 percent of renter-oc-

cupied units. Moreover, in absolute numbers, crowded owner-occupied units declined by nearly 35 percent from 1975 to 1983 while the number of crowded renter-occupied units increased by 3.4 percent.

This increase in the incidence of crowding among renters is likely due to the high and rising incidence of cost burden. By 1983 roughly one-third of all renter households were cost burdened. The incidence of cost burden among owners in 1983 was much lower—8.4 percent. However, the number of cost burdened owners had increased nearly 80 percent from 1975 to 1983, substantially faster than the rate of increase among renters. Overall, in 1983 half of all renter households experienced some type of housing problem compared to about one of every six owner households.

Affordability has surpassed housing quality as the primary housing problem facing the nation.

This sharp divergence between owners and renters in the incidence of housing problems is attributable to two factors. First, owners have greater control over the physical quality of their residence. If plumbing, heating or some other defect arises, an owner can either fix the problem personally or contract to have the work completed. In contrast, a renter likely would have to call the landlord and request that such problems be corrected.

The second factor is that, as one might expect, the incidence of housing problems, particularly affordability problems, is heavily concentrated among the nation's poorest households, a large proportion of which are renters. As shown in Table 4, very low income households, which made up 27 percent of all households and 43 percent of all renters in 1983, represented about 72 percent of all cost burdened households and occupied about half of all physically inadequate

TABLE 1

Extent of Housing Problems in the U.S.: 1975, 1977, 1981 and 1983[a] (Units in Thousands)

		1975	1977	1981	1983	Percent Change 1975 to 1983
Occupied Housing Units/ Households		72,553	75,399	83,203	84,842	+16.9%
Inadequate Units:	#	7,704	7,641	7,695	7,561	− 1.8%
	%	10.6	10.1	9.3	8.9	—
Severely Inadequate Units:	#	3,123	2,949	2,985	2,876	− 7.9%
	%	4.3	3.9	3.6	3.4	—
Crowded Units:	#	2,742	2,455	2,489	2,230	−18.7%
	%	3.8	3.3	3.0	2.6	—
Cost Burdened Households:	#	8,752	10,101	12,899	14,425	+64.8%
	%	12.1	13.4	15.6	17.0	—
Total Units With Housing Problems:	#	19,198	20,197	23,083	24,216	+26.1%
	%	26.5	26.8	27.8	28.6	—

[a]Major categories of housing problems are mutually exclusive. Crowded units are only those which are physically adequate while households with a cost burden are only those in physically adequate, uncrowded units.

Source of Data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

TABLE 2

Trends in Physical Defects in the Housing Stock: 1975 to 1983 (Units in Thousands)

Basic Facilities	1975 #	1975 %	1983 #	1983 %	Percent Change
Kitchen Facilities					
None	1,307	1.8%	714	0.8%	−45.4%
Shared with Another Household	121	0.2%	113	0.1%	−6.6%
Bathrooms					
None	1,845	2.5%	1,672	2.0%	−9.4%
Shared with Another Household	470	0.6%	314	0.4%	−33.2%
Plumbing					
Lacking Some or All Plumbing Facilities	1,883	2.8%	1,538	1.9%	−18.3%
Electrical					
Lacking Working Outlets in Some or All Rooms	2,528	3.5%	2,580	3.1%	2.1%
Heating Equipment					
None	309	0.5%	505	0.7%	63.4%
Maintenance					
Sewage or Septic Tank/Cesspool Breakdowns	102	0.2%	159	0.2%	55.9%
Breakdown in Flush Toilet	156	0.2%	220	0.3%	41.0%
Some or All Wiring Exposed	1,336	1.8%	2,263	2.7%	69.4%
Blown Fuses or Tripped Breaker Switches	1,809	2.7%	3,413	4.3%	88.7%
Breakdown in Heating Equipment	642	1.1%	617	0.8%	−3.9%
Interior Ceilings and Walls With:					
Open Cracks and Holes	3,847	5.3%	5,210	6.2%	35.4%
Broken Plaster	2,518	3.5%	3,178	3.8%	26.2%
Peeling Paint	2,975	4.1%	3,682	4.4%	23.8%
Interior Floors with Holes	1,298	1.8%	1,826	2.2%	40.7%
Signs of Water Leakage					
Roof	4,491	6.5%	6,259	7.7%	39.4%
Basement	8,475	26.4%	9,617	27.4%	13.5%

TABLE 3

Extent of Housing Problems in the U.S. by Housing Tenure: 1975 and 1983 (Units in Thousands)

		Owners			Renters		
		1975	1983	Percent Change	1975	1983	Percent Change
Number of Households		46,920	54,890	+17.0%	25,633	29,952	+16.8%
Percent of Total Households		64.7%	64.7%	—	35.3%	35.3%	—
Inadequate Units	#	3,507	3,420	−2.5%	4,197	4,141	−1.3%
	%	7.5%	6.2%	—	16.4%	13.8%	—
Severely Inadequate Units:	#	1,203	1,178	−2.1%	1,920	1,698	−11.6%
	%	2.6%	2.2%	—	7.5%	5.7%	—
Crowded Units	#	1,585	1,034	−34.8%	1,157	1,196	+3.4%
	%	3.4%	1.9%	—	4.5%	4.0%	—
Cost Burdened Households:	#	2,552	4,581	+79.5%	6,200	9,844	+58.8%
	%	5.4%	8.4%	—	24.2%	32.9%	—
Total Units With Housing Problems:	#	7,644	9,035	+18.2%	11,554	15,181	+31.4%
	%	16.3%	16.5%	—	45.1%	50.7%	—

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

TABLE 4

Distribution of Housing Problems by Income Class: 1983

	All Households	Very Low Income Households[a]	Low- to Moderate-Income Households[b]	All Other
Occupied Housing Units/ Households	100.0%	27.0%	18.2%	54.8%
Renters	100.0%	43.0%	21.7%	35.3%
Inadequate Units	100.0%	50.3%	20.5%	29.2%
Severely Inadequate Units	100.0%	56.8%	18.1%	25.1%
Crowded Units	100.0%	41.5%	22.6%	35.9%
Cost Burdened Households	100.0%	71.9%	19.2%	8.9%
Units With Housing Problems	100.0%	62.4%	19.9%	17.7%

[a]A very low income household is defined as having an income 50 percent or less of the local area median family income.

[b]A low- to moderate-income household is defined as having an income 51 to 80 percent of the local area median income.

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

TABLE 5

Trend in Housing Problems Among Very Low Income Households: 1975 and 1983[a] (Units in Thousands)

		1975	1983	Percent Change
Number of Households		19,117	22,943	+20.0
Percent of All Households		26.3%	27.0%	—
Inadequate Units	#	3,918	3,805	−2.9
	%	20.5%	16.6%	—
Severely Inadequate Units:	#	1,876	1,633	−13.0
	%	9.8%	7.1%	—
Crowded Units:	#	856	926	+8.2
	%	4.5%	4.0%	—
Cost Burdened Households	#	7,049	10,368	+47.1
	%	36.9%	45.2%	—
Total Units With Housing Problems	#	11,823	15,099	+27.7
	%	61.9%	65.8%	—
Percent Which Rent		52.9%	56.1%	—

[a]A very low income household is defined as having an income 50 percent or less of the local area median income.

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, 1986.

housing units.[10] Overall, very low income households occupy about two-thirds of all units with housing problems. Low- to moderate-income households make up about 18 percent of all households and occupy about 20 percent of all units with housing problems.[11] Thus, that income group is experiencing housing problems roughly in accordance with its share of all households. Middle- and upper-income households represent about 55 percent of all households yet occupy under 18 percent of units with housing problems.

Table 5 presents the trends in housing problems among very low income households during the period from 1975 to 1983. During that period the number of very low income households increased by 20 percent, a bit faster than the 17 percent growth for all households. The incidence of physically inadequate units was relatively high—16.6 percent in 1983 compared to 8.9 percent for all households—but in absolute terms declined at a faster rate during the 1975 to 1983 period than for all households—minus 2.9 percent versus minus 1.8 percent. The number of very low income households living in crowded housing declined in relative terms but increased by 8.2 percent in absolute terms. The number of cost burdened very low income households increased sharply in both relative and absolute terms during the period. By 1983, 45 percent of very low income households were cost burdened. Overall, two out of every three very low income households experienced some type of housing problem.

The result has been that "Americans today are the best-housed people in history."

Tables 6 and 7 present additional information on the characteristics of these very low income households. For example, half of all very low income households are female headed, about one-third are headed by an el-

derly individual, nearly 20 percent are black headed, while about 8 percent are hispanic headed. (Note that these groups are not mutually exclusive. For example, a female headed household may also be a black, hispanic or elderly headed household.) Alternatively, 49 percent of all female headed households have very low incomes, as do 44 percent of elderly headed households, 48 percent of black headed households and 41 percent of hispanic headed households. Each of these groups of very low income households is experiencing a high incidence of housing problems, particularly affordability problems. For example, 67 percent of very low income female headed households were experiencing housing problems in 1983, with 48 percent being cost burdened, 16 percent living in physically inadequate units and 3 percent living in crowded units. For black and hispanic headed households the incidence of housing problems is even greater. For both groups, nearly eight of every ten very low income households were experiencing some form of housing problem. To be expected, affordability is the most common housing problem, although the incidence of physical inadequacy is also relatively high.

Elderly headed households with very low income had a relatively lower incidence of housing problems than the other groups. About one-third of very low income elderly headed households were cost burdened while about 14 percent lived in physically inadequate units. The incidence of crowding is extremely low for this group. One factor in this relatively favorable housing situation for the very low income elderly is that the homeownership rate among this group is around 60 percent, significantly higher than for the other groups. Thus, earlier in their lives when they likely had higher incomes, large numbers of the elderly became homeowners, which helped to stabilize their housing costs. Later in their lives incomes typically fell, increasing the burden of housing costs and leading to some deterioration in the physical quality of the unit. However, despite their current very low income status the housing situation of the elderly is favorable relative to these other groups for which homeownership rates are much lower.

While the incidence of cost burden among very low income households grew sharply in both relative and absolute terms, the increase in cases of cost burden was not confined to this income group. As shown in Table 8, cost burden worked its way up the income scale during the 1975 to 1983 period. The incidence of cost burden increased from 10.2 percent of lower-to-moderate income households to 17.9 percent. Similarly, the incidence of cost burden increased among mid-

TABLE 6

Extent of Housing Problems for Selected Groups of Very Low Income Households: 1983[a] (Units in Thousands)

		Female Headed Households	Elderly Headed Households	Black Headed Households	Hispanic Headed Households
Very Low Income Households		11,474	7,867	4,402	1,899
Percent of Total Households		13.5%	9.3%	5.2%	2.2%
Percent of Very Low Income Households		50.0%	34.3%	19.2%	8.3%
Percent of Group		49.0%	44.1%	48.0%	41.1%
Inadequate Units:	#	1,675	1,133	1,313	451
	%	16.4%	14.4%	29.8%	23.8%
Severely Inadequate Units	#	743	502	562	164
	%	6.5%	6.4%	12.8%	8.6%
Crowded Units:	#	306	15	237	267
	%	2.7%	0.2%	5.4%	14.1%
Cost Burdened Households:	#	5,551	2,649	1,875	775
	%	48.4%	33.7%	42.6%	40.8%
Total Units With Housing Problems	#	7,732	3,797	3,425	1,493
	%	67.2%	48.3%	77.8%	78.6%

[a]Groups are not mutually exclusive. For example, a female-headed household may also be a black, hispanic or elderly-headed household.

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, 1986.

TABLE 7

Distribution of Housing Problems Among Selected Groups of Very Low Income Households: 1983[a]

	Female Headed Households	Elderly Headed Households	Black Headed Households	Hispanic Headed Households
Percent of Total Households	13.5%	9.3%	5.2%	2.2%
Percent of Inadequate Units	24.8%	15.0%	17.4%	6.0%
Percent of Severely Inadequate Units	25.8%	17.5%	19.5%	5.7%
Percent of Crowded Units	13.7%	6.7%	10.6%	12.0%
Percent of Cost Burdened Households	38.5%	18.4%	13.0%	5.4%
Percent of Units With Housing Problems	31.9%	15.7%	14.1%	6.2%

[a]Groups are not mutually exclusive. For example, a female-headed household may also be a black, hispanic or elderly-headed household.

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, 1986.

TABLE 8

Incidence of Cost Burden Among Income Groups: 1975 and 1983

	1975	1983
All Households	12.1%	17.0%
Very Low Income	36.9%	45.2%
Low- to Moderate-Income	10.2%	17.9%
All Other (Middle and Upper Income)	0.8%	2.8%

Source of Data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

dle- and upper-income households as well.

The relationship between housing tenure and the extent of housing problems

The data in this HUD study reveal several additional interesting developments during the 1975 to 1983 period. First, while the aggregate homeownership rate in 1983 was the same as in 1975, the homeownership rate for very low income households declined. As shown in Table 9, the homeownership rates for both very low and low-to-moderate income households were lower in 1983 than in 1975 while the homeownership rate for other households, those with middle and upper incomes, was higher. This is the result of several factors, as shown in Table 10. First, most of the growth in very low income households during this period was among groups that had homeownership rates below the average for all very low income households, such as female headed households. Further, the homeownership rates within most of these specific groups of very low income households declined as ownership affordability declined from 1975 to 1983.

A second interesting trend is that even among very low income households, there is a higher incidence of housing problems among renters than among owners. As shown in Table 11, within the very low income group, owners make up 43.9 percent of total households but represent just 32.2 percent of the households experiencing a housing problem. Within selected groups of very low income households, such as female-headed, elderly-headed, etc., this same relationship exists—owners experience a smaller proportion of all types of housing problems than their proportion of total households in that group. Thus, homeownership is associated with a lower incidence of all forms of housing problems for households at all income levels.[12]

The data presented illuminate several important facts regarding the housing situation in the United States. First, while the physical condition of the housing stock has vastly improved since the end of World War II, millions of primarily lower-income households continue to live in housing plagued by serious physical defects. Second, for an even larger and growing number of households, acquiring physically adequate and uncrowded shelter represents a financial burden. Moreover, while the affordability problem is largely concentrated among lower-income households, it is increasingly becoming a problem for middle-income families as well. Clearly, for numerous reasons housing costs are rising faster than income for an expanding segment of our society. □

TABLE 9

Homeownership Rates by Income Class: 1975 and 1983

	All Households	Very Low Income	Low- to Moderate-Income	Other (Middle- and Upper-Income)
1975	64.7%	47.1%	58.5%	75.2%
1983	64.7%	43.9%	57.9%	77.2%

Source of Data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

TABLE 10

Change in Very Low Income Households by Selected Groups: 1975 to 1983[a]

	Total	Female Headed Households	Elderly Headed Households	Black Headed Households	Hispanic Headed Households
Homeownership Rate: 1975	47.1%	41.8%	61.1%	31.7%	28.2%
Homeownership Rate: 1983	43.9%	39.3%	60.4%	32.2%	22.2%
Percent Change in Number of Households:					
1975 to 1983	20.0%	22.6%	3.5%	22.1%	61.1%
Percent of Change in Number of Very Low Income Households	100.0%	55.3%	6.9%	20.8%	18.8%

[a]Groups are not mutually exclusive. For example, a female-headed household may also be a black, hispanic or elderly-headed household.

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

TABLE 11

Distribution of Housing Problems Among Very Low Income Households by Housing Tenure: 1983

	Total	Owner	Renter
All Very Low Income Households	100.0%	43.9%	56.1%
Inadequate Units	100.0%	37.1%	62.9%
Severely Inadequate Units	100.0%	34.2%	65.8%
Crowded Units	100.0%	25.3%	74.7%
Cost Burdened Households	100.0%	31.0%	69.0%
Total Housing Problems	100.0%	32.2%	67.8%

Source of data: Irby, Iredia. "Attaining the Housing Goals?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.

[1]The Report of the President's Commission on Housing, Washington, D.C., 1982, p. xviii.
[2]Source: 1983 Annual Housing Survey (AHS).
[3]The Report of the President's Commission on Housing, Washington, D.C., 1982, p. xviii.
[4]Irby, Iredia. "Attaining the Housing Goal?" U.S. Department of Housing and Urban Development, housing and demographic analysis division, office of economic affairs, July 1986.
[5]1983 is the most recent year for which data are available. A new survey, the *American Housing Survey*, was conducted in 1985. Results from that survey should be available by late summer or early fall of 1987.
[6]The AHS gathered 35 indicators of housing condition and quality. These indicators are used to precisely define the conditions of inadequacy and severe inadequacy. Other researchers have used these same indicators to derive somewhat different definitions of physical inadequacy.
[7]The terms household and occupied housing unit are used interchangeably due to the fact that a household is defined as a person or group of persons who occupy a housing unit.
[8]The major categories of housing problems are mutually exclusive. Crowded units are only those which are physically adequate while cost burdened households are only those in physically adequate, uncrowded units. In 1983, 2.9 million households living in physically inadequate and/or crowded units were also cost burdened, bringing the total number of cost burdened households to 17.3 million or 20.4 percent of all households.
[9]Analysis suggests that many of these maintenance deficiencies are temporary. See National Association of Home Builders, *Low- & Moderate-Income Housing: Progress, Problems and Prospects*, 1986, pp. 8-9.
[10]A very low income household is defined as having an income 50 percent or less of the local area median family income. Cash income only is used in making this classification.
[11]A low- to moderate-income household is defined as having 51 to 80 percent of the local area median family income. Cash income only is used in making this classification.
[12]It should be noted that households surveyed in the AHS are asked to self-evaluate their housing situation. Therefore, it is possible that there is some bias in the responses. It seems likely that owners would be less critical of their housing situation than would renters given the fact that they have a significant investment in the property. However, the difference in incidence of housing problems between owners and renters when income and household characteristics are controlled for is large enough to suggest that a significant relationship may exist.

MORTGAGE MARKET TRENDS

Preliminary data indicate that real gross national product (GNP) increased at an annual rate of 2.6 percent during the second quarter, down from a revised 4.4 percent during the first quarter. This second quarter slowing in real GNP growth was due primarily to a slowing of the pace of inventory accumulation. In real terms, inventories rose by $41 billion (annual rate) compared to $48 billion during the first quarter, subtracting 0.7 percentage points from the second quarter growth rate.

Final sales—GNP less inventory investment—increased at a healthy pace during the second quarter. Consumer spending in real terms rose about 2 percent at an annual rate due largely to a recovery of auto sales. Business investment in equipment increased nearly 12 percent after having declined sharply during the first quarter. Real net exports—the balance between exports and imports—increased for the third successive quarter.

Growth of the economy during the current quarter will likely be comparable to that of the second quarter. Consumer spending should increase moderately while business fixed investment also increases but less than in the second quarter. However, residential investment should continue to decline, reflecting a further decline in apartment construction and the effects of the rise in mortgage interest rates since March on the single-family market. Auto production is also likely to decline in the third quarter, contributing to another reduction in inventory investment.

However, there is mounting evidence that, aside from autos, the manufacturing sector is experiencing robust growth due largely to its improved competitive position in international markets. In July, manufacturing employment increased by 70,000, despite the fact that employment in the auto industry fell by 38,000. Industrial production rose a strong 0.8 percent in July with the largest increases occurring in business equipment, intermediate materials and mining. These increases in employment and production likely stem from a substantial increase in unfilled orders for durable goods in recent months. From March to June, unfilled orders for all durable goods increased at an annual rate of 15 percent; for non-defense capital goods, the annual rate of increase was 19 percent. These large increases in unfilled orders are probably due to the combined effect of increasing exports and the substitution of domestically produced goods for imported goods. During the past three quarters, the volume of non-farm exports has risen at an annual rate of 13 percent while non-oil imports have increased at a mere 1 percent. Given this significant turnaround in the trade balance, MBA expects growth of GNP to accelerate to 3 percent or somewhat higher later this year and through 1988.

Recent price statistics suggest that inflation will be more moderate during the second half of this year than during the first half. Both producer prices for finished goods and consumer prices rose substantially less in May and June than during the first four months of the year. The contribution of energy prices to overall inflation is diminishing and wages continue to rise at a moderate pace. Thus, consumer prices should increase at an annual rate of about 4 percent during the second half compared to nearly 5½ percent during the first half.

However, the economy is well into its fifth year of expansion with the unemployment rate down to 6 percent. Therefore, it is highly likely that the expected acceleration of economic growth will be associated with both rising inflation and rising interest rates. In 1988, the rate of inflation in consumer prices should rise to about 5 percent as the rate of increase of wages and salaries begins to pick up. Interest rates should rise in response to the more rapid growth of the economy and the strong likelihood that the Federal Reserve will tighten monetary policy later this year or in early 1988 to ensure that the economy does not overheat. Mortgage interest rates should rise about 11 percent by the second half of 1988. The rise in interest rates will act to curb moderately the level of activity in credit sensitive sectors such as housing.

Richard W. Peach
Senior Economist
August 14, 1987

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
JAN	105	75	30	1,816	1,332	484	102	69	33	1,652	1,181	471
FEB	103	76	27	1,838	1,379	459	101	76	25	1,676	1,313	363
MAR	141	107	34	1,730	1,296	434	150	109	41	1,719	1,244	475
APR	159	124	35	1,643	1,275	368	157	117	40	1,598	1,152	446
MAY	158	119	39	1,602	1,185	417	136	104	32	1,493	1,100	393
JUN$_p$	165	123	42	1,590	1,174	416	156	119	37	1,514	1,122	392
1986 TOTAL	1,806	1,263	543				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
6 MONTHS												
1987	831	625	206				806	597	209			
1986	932	646	286				908	607	301			
1985	855	582	273				843	540	303			
1984	914	631	283				899	576	321			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
JAN	16	16	44	29	336	431	589	460	14	14	41	29	286	362	568	436
FEB	10	14	45	34	291	371	675	501	15	16	43	27	319	388	577	392
MAR	22	24	57	40	296	348	616	470	25	26	60	41	317	335	624	443
APR	26	28	66	40	272	305	665	401	27	32	58	41	290	305	588	415
MAY	28	33	60	37	295	311	619	377	26	28	50	33	274	284	575	360
JUN$_p$	29	36	57	43	267	290	606	427	30	29	58	39	285	264	599	366
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					260	237	753	484				
6 MONTHS																
1987	130	150	328	223					139	144	311	213				
1986	134	138	405	255					132	137	379	261				
1985	110	109	400	236					122	105	378	238				
1984	86	115	478	236					92	103	451	253				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987														
JAN	216	53	358	6.2	222.4	107.9	29.4	85.1	1,089	658	431	137	91	46
FEB	241	59	358	6.1	224.5	108.5	28.4	87.6	1,096	669	427	118	78	40
MAR	325	73	352	6.0	225.9	112.0	27.5	86.4	1,085	669	416	127	86	41
APR	331	72	355	5.9	224.7	112.8	27.0	84.9	1,070	675	395	135	94	41
MAY	346	61	353	6.8	227.9	112.7	26.7	88.5	1,063	670	393	130	93	37
JUN$_p$	361	60	361	6.7	223.1	113.5	25.3	84.3	1,067	674	393	146	107	39
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
6 MONTHS														
1987	1,820	378										793	549	244
1986	1,713	425										796	538	258
1985	1,522	360										788	531	257
1984	1,337	329										767	521	246

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
OCT	$56,285	$12,659	$20,760	$19,781	$3,085	$41,901	$11,535	$16,992	$12,985	$389
NOV	52,157	12,703	16,813	18,141	4,500	37,493	12,136	13,634	11,307	416
DEC	74,941	14,615	26,639	27,478	6,209	47,459	13,148	19,298	14,720	293
1987										
JAN	42,804	9,748	12,888	18,641	1,527	31,421	8,791	10,477	11,932	221
FEB	44,756	10,518	13,128	19,103	2,007	31,486	10,012	10,773	10,534	167
MAR$_p$	55,498	14,311	17,994	20,960	2,233	40,433	13,876	15,061	11,357	139
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	241,474	62,658	109,286	68,224	1,306
3 MONTHS										
1987	143,093	34,577	44,045	58,704	5,767	103,340	32,679	36,311	33,823	527
1986	89,478	20,413	34,180	29,159	5,726	61,093	18,628	26,398	15,493	574
1985	66,722	12,621	26,703	23,026	4,372	42,999	11,594	19,227	11,985	193
1984	65,427	13,947	25,697	22,966	2,817	44,430	13,038	18,977	12,240	175

LENDER ACTIVITY (Cont'd.)

LONG-TERM LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
OCT	$3,560	$735	$1,933	$735	$157	$10,824	$389	$1,835	$6,061	$2,539
NOV	2,661	190	1,537	576	358	12,003	377	1,642	6,258	3,726
DEC	6,753	919	3,629	1,677	528	20,729	548	3,712	11,081	5,388
1987										
JAN	2,878	529	1,340	877	132	8,545	428	1,111	5,832	1,174
FEB	2,659	222	1,144	1,053	240	10,606	284	1,206	7,516	1,600
MAR$_p$	2,751	71	1,421	1,004	255	12,314	364	1,512	8,599	1,839
3 MONTHS										
1987	8,289	822	3,905	2,935	627	31,464	1,076	3,829	21,946	4,613
1986	6,598	709	3,595	1,678	616	21,603	892	4,187	11,988	4,536
1985	5,079	584	2,776	1,307	412	18,644	443	4,700	9,734	3,767
1984	4,798	172	2,729	1,609	288	16,199	737	3,991	9,117	2,354

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1986										
OCT	$43,470	$8,959	$19,202	$12,593	$2,716	$138,510	$17,784	$49,878	$51,605	$19,243
NOV	35,692	8,263	17,111	7,554	2,764	129,903	20,974	48,994	40,726	19,209
DEC	43,851	13,033	19,548	7,979	3,291	124,310	23,189	43,014	41,809	16,298
1987										
JAN	29,161	7,044	13,718	6,674	1,725	116,876	18,703	40,419	41,594	16,160
FEB	34,440	10,941	11,585	9,599	2,315	137,570	20,664	49,401	51,121	16,384
MAR$_p$	48,848	12,078	23,671	9,974	3,125	135,835	20,110	52,366	47,241	16,118
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
3 MONTHS										
1987	112,496	30,063	48,974	26,294	7,165					
1986	102,354	30,315	44,607	17,896	9,536					
1985	60,261	9,966	33,988	8,946	7,361					
1984	61,573	12,569	32,604	10,884	5,516					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
JAN	208	120	41	47	175	$12,143	95	$5,864	38	$2,718	42	$3,561
FEB	243	153	42	48	167	11,525	90	5,458	44	3,255	33	2,812
MAR	307	190	49	68	247	16,893	148	9,134	60	4,420	39	3,339
APR	285	165	41	79	227	15,768	142	8,947	41	3,021	44	3,800
MAY	216	104	38	74	230	15,838	149	9,265	36	2,622	45	3,951
JUN$_p$	212	93	43	76	219	15,501	120	7,502	47	3,424	52	4,575
1986 TOTAL	3,283	1,908	452	923	1,852	127,759	921	56,901	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,333	87,485	410	23,964	192	13,046	731	50,475
6 MONTHS												
1987	1,471	825	254	392	1,265	87,669	744	46,170	266	19,460	255	22,039
1986	1,759	1,133	201	425	761	51,826	376	23,073	135	9,606	250	19,147
1985	1,017	396	103	518	613	39,502	183	10,574	79	5,189	351	23,739
1984	994	243	113	638	753	47,733	166	8,935	116	7,448	471	31,350

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
JAN	$948	$1,346	$101,687	$6,363	$7,455	$8,003	$7,950	$8,215	$13,932	$10,624
FEB	912	979	104,670	4,691	8,802	7,990	7,961	7,844	11,668	9,692
MAR	2,805	1,435	107,673	4,627	9,385	14,314	9,394	9,145	10,873	10,736
APR	3,208	2,118	112,673	6,997	8,167	12,965	9,777	9,852	15,050	11,934
MAY	1,726	1,718	116,861	7,086	n.a.	n.a.	n.a.	n.a.	10,220	3,515
JUN$_p$	1,745	1,690	121,270	6,648	n.a.	n.a.	n.a.	n.a.	14,077	4,950
1986 TOTAL	32,987	30,826	—	60,566	n.a.	n.a.	n.a.	n.a.	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,085	46,762	44,012	44,085	64,360	45,868
6 MONTHS										
1987	11,344	9,286	—	36,412	33,809	43,272	35,082	35,056	75,821	51,451
1986	16,171	10,366	—	23,359	25,842	38,484	19,827	19,061	58,600	36,313
1985	10,418	10,880	—	8,200	14,644	15,480	10,877	9,498	24,139	17,887
1984	10,118	9,185	—	5,416	6,025	6,430	5,081	3,907	19,004	15,263

*Year-to-date totals are for four months only.

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.	APARTMENTS[5]
1987								
FEB	8.81%	9.04%	9.04%	9.23%	9.21%	8.48%	8.668%	10.25%
MAR	8.94	9.19	9.20	9.14	9.09	8.06	8.633	10.24
APR	10.02	10.11	10.14	9.21	9.09	8.35	9.655	12.08
MAY	10.61	10.44	10.46	9.37	9.27	8.85	10.208	12.65
JUN	10.33	10.29	10.29	9.45	9.38	8.69	9.995	n.a.
JUL$_p$	n.a.	n.a.	n.a.	9.44	9.43	8.45	9.773	n.a.

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[5]	FNMA[5]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
FEB	8.06%	8.21%	8.17%	8.82%	7.25%	5.59%	6.05%
MAR	8.12	8.25	8.22	8.84	7.25	5.60	6.16
APR	9.06	9.13	9.08	9.51	8.02	5.90	6.45
MAY	9.35	9.62	9.59	10.05	8.61	6.05	6.93
JUN	9.69	9.70	9.65	10.05	8.40	5.99	6.92
JUL	9.62	9.64	9.59	10.17	8.45	5.86	6.65

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
FEB	−1	81	96	92
MAR	10	87	100	97
APR	51	104	111	106
MAY	56	74	101	98
JUN	16	129	130	125
JUL	n.a.	117	119	114

NA—Not available. p—Preliminary.

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.